Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2000

Issued on 9 June 2000

Important Notice

Following an increase in the size of the Fund by more than 5.5 times to £55m/EUR89m since inception a year ago the Directors of the Fund resolved on 10 February to limit the number of shares in issue at 3m. This limit was reached on 25 February and will apply until at least 15 September 2000.

Redemptions can be made through the administrator in the usual way. Ennismore Fund Management is keeping an informal waiting list for investors wishing to subscribe to shares in the event of any redemptions. To be included in this list, please call Franziska Günther on +44 20 7313 9519.

Fund Details

Daily dealing UCITS and Central Bank of Ireland regulated open ended investment company with FSA approval, registered in Ireland and listed on the Irish Stock Exchange. The Fund has an AA S&P Fund Research New Fund Rating. The Fund size was £58.5m as at 31 May.

Performance as at 31 May 2000

	NAV (31/5/00)	May %	Year to Date %	Since Launch (27/1/99) %
£ Sterling				
Ennismore European Smaller Companies*	£19.62	2.5	31.7	96.2
HSBC Europe inc. UK Small Cap Index#		3.3	3.4	28.9
€ Euro				
Ennismore European Smaller Companies*	€31.50	-4.6	32.9	119.5
HSBC Europe inc. UK Small Cap Index#		-3.1	3.6	45.0
Local Currency				
MSCI Europe 15 Index (Large Cap)#		-0.7	1.7	30.0

* Source: Administrator, Net Asset Value, net income reinvested # Source: Bloomberg, excludes income.
All performance figures net of fees.

Comments on Performance refer to £ Sterling unless otherwise stated.

Net asset value in May increased by 2.5%. A key factor were the gains of ca. 6% over the month that the Euro and other European currencies recorded against Sterling. This affected all non-Sterling assets of the Fund (52%). At the stock level, the major positive contributors were Reliance, Think Tools, Rational, Free Record Shop and Sartorius accounting for +2% of the month's returns. The bottom five performers contributed an accumulated -1% to the Fund's return. There was no clear trend amongst the strong and weak performers, with both categories including value, higher growth and technology related stocks.

Top Ten Holdings as at 31 May 2000*

	Company	Country	Sector	% of NAV
1	MFI Furniture	UK	Retail	4.0
2	Free Record Shop	Netherlands	Retail	3.5
3	Think Tools	Switzerland	Software	3.2
4	Reliance Security Group	UK	Services	2.6
5	Beru	Germany	Auto	2.3
6	Rational	Germany	Capital Goods	2.3
7	ACG	Germany	Services	2.3
8	Zapf Creation	Germany	Consumer	2.3
9	Sartorius	Germany	Capital Goods	2.0
10	Fitness First	UK	Leisure	1.7
				26.2

* excludes ARINS

We have no new stock profile this month. We are in the process of building up a significant position in a stock that we will feature next month.

Country, Market Cap & Sector Weightings as at 31 May 2000

Country	% of NAV
UK	25.4
Germany	21.0
Netherlands	7.4
Sweden	7.3
Switzerland	5.3
France	5.0
Spain	2.7
Norway	0.9
Belgium	0.8
Finland	0.8
Other	0.8
Cash	22.6

Market Cap	% of NAV
>£1bn	6.5
£350m - £1bn	16.2
£100m - £350m	29.3
<£100m	25.4
Cash	22.6

Sector	% of NAV
Retail	20.9
Services	9.3
Media	7.5
Software	6.0
Financial	5.8
Consumer	5.6
Capital Goods	4.4
Auto	4.0
Distribution	3.9
Leisure	2.0
Other	8.0
Cash	22.6

Portfolio Activity

As at 31 May the Fund was 77.4% invested in 65 shares. There were only small changes to the portfolio with the new purchases of Charles Voegele, Phoenix Mecano and New Look and additions to several existing positions. We sold outright Net Insight, Dixon Motors and Pironet.

Outlook

Markets have become much more cautious following the correction in high growth stocks. Although our prudent and low exposure to the 'hot' areas of technology, media and telecommunications has served us well during the difficult phase, we were not entirely free from the occasional bout of optimism that proved unwarranted in a more subdued climate. An ideal environment therefore to take stock and ask to what degree our investments meet the following key criteria:

- A strong competitive position – is the company in charge of its own destiny?
- Management of high quality and integrity, with a clear strategy, good controlling and open communication
- A clear growth situation, preferably without acquisitions
- Value – is there good downside protection as well as undiscovered growth allowing upside? Only extreme value would allow us to partly relax any of the above criteria

This review is two-thirds complete. The main outcome of this exercise have been additions to existing positions that have a highly favourable risk-reward profile in that they combine an absolute low price-earnings ratio with good growth prospects. We have a strong research pipeline and remain confident for the future.

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